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## Wild West or Law and Order? It's our choice

***Recent studies have questioned whether supply chain management in the UK oil and gas industry is likely to see more or less collaborative innovation as the focus shifts more towards costs.***

Indeed, Professor Andrew Cox, visiting professor at the universities of Exeter, Nyenrode and San Diego, sees the future technical and economic sustainability of the industry depending on what choices people make in 2009. He states that at the moment, the industry seems to be going more into a Wild West approach, meaning short-term and highly adversarial commercial and operational ways of working without any thought for the sustainability of the industry and its supply chain as a whole. In contrast to this is an approach based on collaboration and long-term planning.

I have asked Norman McLennan, supply chain manager at Oil & Gas UK, Zeina Sawaya-Melville, VP commercial development with Energy Cranes International, Greg McKenna, head of supply chain group with Venture Production and Alistair McGregor supply chain director with Amec Natural Resources to share their views on the state of our industry. The result is an interesting and thought provoking debate about the future of the oil and gas industry.

***Do you feel the industry is in danger of moving to a Wild West approach, or has it already adopted such an approach?***

**Alistair McGregor:** There is no doubt that the industry is facing a considerable challenge at present with fortune currently favouring those parties who are not overly dependent upon the credit market and who have robust projects to pursue. We have seen a strong sellers market reversed in the blink of an eye and there is naturally enormous temptation to return to the practices of the past which I think the industry can and must avoid if it is to prosper in the future. We now have access to a range of solutions embodied in the Supply Chain Code of Practice, the challenge as ever lies in the promotion of positive behaviours in the buying community.

**Zeina Sawaya-Melville:** The supply chain has developed in the past few years, slowly but surely, to a more collaborative approach to contracting in our industry. With the fall in oil and gas prices, it is understandable that there is an urgent need to revisit cost and efficiencies. The operators seem to have opted for an engaging approach in general, whilst conducting such reviews and are keen on efficiencies and mindful of quality and safety. However, it is early days and contractors are concerned that the need to maintain consistency of earnings, essential for future investment, might not be given consideration, especially at a time of low liquidity. We surely hope that a balance can be achieved.

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*Why do you think collaboration is so important?*

**Alistair McGregor:** In my experience the contracts we strike between buyer and seller have potentials that need to be realised through hard work and endeavour – it is effective and active collaboration that turns the potentials into reality, reduces risk of failure and increases the likelihood of success from any deal.

**Greg McKenna:** I agree with Alistair's comment. At the end of the day, collaboration is about increasing efficiency. It ensures the right behaviours and provides an open forum where ideas can be generated and work executed in the most efficient manner.

**Norman McLennan:** Collaboration is especially needed during times of financial pressure on organisations. The principles embodied within the Supply Chain Code of Practice can help eliminate inefficiencies, add value and encourage more sustainable relationships.

*As a sector we need to keep thinking about our long-term sustainability. Do you think there is a better contracting model that we could adopt for sustainability?*

**Norman McLennan:** Yes; the industry is crying out for a new value contracting model and flexible commercial mechanism to be developed. This would support sustainable relationships throughout periods of high oil price volatility.

**Greg McKenna:** I would add to this that a relationship based approach to contracting is necessary, companies should focus on the value proposition rather than cost.

**Alistair McGregor:** I think it's important to recognise that everyone entered into contracts with each other in good faith and we should not sacrifice the integrity of that process on the altar of short-termism. Using a "sniper rather than a shotgun" approach seems to me to be the most sensible way of approaching the issues of cost-reduction and we

absolutely should not lose sight of the overwhelming need for a good value-contracting model.

*Do you feel there is a better way to remove costs from the sector other than reducing head count and slashing contractor rates?*

**Zeina Sawaya-Melville:** The current economic climate gives both operators and contractors a great opportunity to assess performances and adjust accordingly. Through dialogue and collaboration, both parties can benefit tremendously from an honest exchange on how aspects of their respective organisations can improve. Hopefully, the discussions that are on-going will not fall short of expectations.

**Alistair McGregor:** I think it varies from sector to sector. It's obvious that well servicing and drilling costs rapidly need to return to 2004 levels to boost exploration and development drilling and personnel rates also need to see a realistic realignment with market reality. In other sectors such as engineering services it's going to be all about greater efficiency, intellect and smarter ways of doing business. Whatever we do, we need to do it in a way that doesn't put quality of delivery at risk, imperil our reputation, put our own workforce or that of any other company in harm's way or adversely impact the integrity of our business philosophy.

One of the unfortunate effects of the high oil price for the last few years has been to mask some long-term structural issues underlying business activity in the North Sea; most notably that it's a high-cost environment. The industry needs to be able to deal effectively with that issue for the future. What's happening today is by no means a bad thing for us, if we take a farsighted perspective on it.

**Greg McKenna:** Clearly, as an industry we need to work smarter, look at different ways of doing things and think outside the box. Trust the contractor to come up with the best solution and let the companies who have the knowledge use it in the most efficient means possible and reward them for doing so.

*Many companies have removed training and development from their 2009 budgets due to the poor economic climate - what is your view on this?*

**Zeina Sawaya-Melville:** It is interesting to note that many think of the present economic situation as a pure downturn, similar to others the industry has faced in the past. Unfortunately, this time it's far more complex. The real challenge for our industry today is how are we going to be able to respond to the upturn, which will come with greater pressures, whilst driving down cost inflation in the supply chain today. The answer lies in retaining a smart, skilled, open and creative supply chain. From that perspective, investment in training becomes strategic and needs to be considered now.

**Greg McKenna:** Cutting training budgets is a short sighted approach that will damage the industry in the long run. When commodity prices rise (as they will do in the future) where will the personnel be that will be needed to run the industry?

*Finally, what, in your view, can and should industry bodies such as Oil & Gas UK do to help the industry?*

**Greg McKenna:** Oil & Gas UK needs to promote a more long term view, get companies to think about how to manage the future, promote the industry to the next generation and encourage investment and research in new technology.

**Zeina Sawaya-Melville:** Most of the required initiatives have been launched. What is needed is a boost to enhance development pace and further research work to compare our strengths and weaknesses with the supply chain performance of other industries, and plan accordingly. To say that little can be done because many of the decisions that impact our supply chain are made in the HQs of international companies based outside the UK is not entirely true. Our colleagues in Norway have managed to relatively make progress on that front.



## Oil & Gas UK launches new 30-day payment help-line

Oil & Gas UK has launched a confidential supply chain help-line for the oil and gas industry. The service will act as a listening post for problems in the supply chain by asking the supplier community to give feedback on customer/purchaser behaviour and practices that are adversely affecting their ongoing business viability, focusing in particular on the speed at which invoices are paid during the current climate of tightened credit and banking facilities. The intention is to inform the industry's trade association about concerns that may be addressed by targeted industry initiatives or, if appropriate, engagement with specific companies.

Paul Dymond, operations and supply chain director with Oil & Gas UK, said: "We would like to encourage all member and non-member companies within the oil and gas supply chain to contact us through these links to let us know their concerns and suggestions around contracting practice and behaviour, so that we can identify appropriate industry responses. It is important to stress that information will be held in confidence and only shared in a generic, non-attributable form unless with the express written sanction of the provider."

To share your concerns with Oil & Gas UK, please call 07980 897876 or e-mail [sconcerns@oilandgasuk.co.uk](mailto:sconcerns@oilandgasuk.co.uk)

## PILOT Forward Workplan – a live online Share Fair by Bill Cattanach, head of PILOT secretariat & industry development at DECC

The PILOT Forward Workplan database 'A Live online Share Fair' aims to complement and enhance the annual PILOT Share Fair by building on its success to provide a 'real time' platform for potential contracts and opportunities. While one quality Share Fair per year gives operators and first tier contractors a good opportunity to present their future developments, it can only reflect what is known on the day. So the Department of Energy and Climate Change (DECC), in conjunction with FPAL and Oil & Gas UK, has developed

this online Share Fair database. With this type of facility, information can be updated on a regular basis providing responsive market intelligence.

The database will provide information on the types of activity being planned, contract values, timings and a contact name. The initiative is also part of the new tiered compliance system within the Supply Chain Code of Practice, and posting information on the website is a key criteria for achieving the Gold award.



For more information go to: [www.fpal.com](http://www.fpal.com) click on ITT templates and future work plans or call FPAL on 01224 337 500.

## New supply chain workshop to look at model contractual supply chain solutions

The upstream oil and gas industry is currently experiencing the impact of extreme oil price volatility coupled with economic uncertainty. As a result, many players in the sector see adverse changes

in working practices and behaviors coupled with contractual tensions.

Against the backdrop of these challenges, Oil & Gas UK is running a series of half day workshops to encourage a more supportive business philosophy from end user clients cascading down through all stages of the supply chain.

These workshops, which take place both in London and Aberdeen, have been developed in response to industry demand for training and general

awareness on the use and practical application of model contractual supply chain solutions in the sector to encourage more efficient and streamlined working practices during challenging times.

The half day workshop sessions will be highly interactive with a focus on the practical application of tools and solutions.

The workshops will take place in Aberdeen on 23 April, 8 May and 3 June and in London on 9 June.

# Supply Chain Code of Practice

## – *the company view*

**PSN has recently signed up to the Supply Chain Code of Practice. In this interview, Bob Keiller, chief executive officer of PSN, explains the reasons behind his decision to sign up to the code.**

### ***Why has PSN recently signed up to the code?***

There is no doubt that the supply chain code of practice is an important tool to help the industry drive waste out of the supply chain; yet, until recently, I was unwilling to sign up to the code as I felt it was hypocritical of people to sign up to a commitment and then have no sanction or embarrassment when they disregarded it. However, the introduction of a new system for measuring compliance is an important step forward and gives the code some weight and importance it didn't have before.

### ***So what difference exactly does the new tiered compliance system make?***

The new tiered compliance mechanism will encourage better application of the code across the supply chain. Naturally, it will take time for companies joining the code to excel in all its elements, however being labelled as a 'Bronze Level' purchaser when all your peers are on 'Gold' may create some energy for improvement.

### ***What do you regard as the most important aspect of the code?***

All elements of the code are important and relevant, however, in the current economic climate, the most important aspect

would have to be the 30-day payment provision. With credit truly 'crunched', sticking to a 30-day payment schedule, from the top to the bottom of the supply chain, is vital. Quite simply, if we fail to do this it could force companies out of business.



Bob Keiller, chief executive of PSN

### ***Do you feel there is a better way to remove costs from the sector other than reducing head count and slashing contractor rates?***

Absolutely! It is all about collaboration. Only if we work together will we be able to come through the current cycle stronger than before. Operators need to work with their suppliers and contractors to find ways of removing unnecessary costs, creating greater efficiency and developing a relationship that will endure through all cycles of the industry. The supply chain code of practice is a vital tool in achieving this.

Communicating forward plans, streamlining tendering and negotiation processes and shortening payment cycles will reduce bidding costs, eliminate waste and increase competitiveness.

However, at the end of the day, we may not forget that relationships are built on openness, trust and respect where purchasers respect the right of suppliers to make a profit and suppliers recognise that they get paid for delivering a quality service; this will be the key to a sustainable supply chain.

## Time to show your commitment



Transparency, collaboration and long-term planning are just a few of the key words surrounding the PILOT Share Fair events. In times of economic uncertainty the oil and gas industry needs to work together to improve efficiency, create value and drive out waste. The annual PILOT Share Fair is one of the industry's most effective vehicles for doing just that. This November's Share Fair 11 in Aberdeen will offer an important platform for major oil and gas companies to share their future projects and provide small and medium sized suppliers with information necessary for long-term business planning.

Amongst the companies that presented their forward work plans last year were Amec and Fairfield Energy, who both found the experience a rewarding one. Brian Brown, contracts manager with Fairfield Energy, said: "As one of the newer operators in the North Sea we were keen to communicate our story to as wide an audience as possible, and Share Fair was the perfect opportunity to do that. Share Fair 10 generated

a great deal of interest in the company and ensured we had the supply chain's attention for our subsequent drilling and operations tendering campaigns.

Alistair McGregor, supply chain director with Amec Natural Resources, added: "We view the capabilities of our supply chain as giving Amec a competitive advantage in the market place. Companies however often complain about not knowing whom to speak to or what to do about working with a large organisation such as Amec. To address this issue we concentrated on the practical mechanics of doing business with our organisation in the Share Fair presentation. We are delighted to find that this approach appears to have been greatly appreciated."

PILOT Share Fair 11 will take place on 4 November 2008 at the AECC. For further information on presenting at Share Fair 11, please contact Louise Wood on 01224 577250.

# Closer collaboration is key to good operator and contractor relations

When the chief executive officer of Subsea 7, Mel Fitzgerald, recently called for closer collaboration between operators and contractors to help take unnecessary costs out of the system and ensure long term sustainability for the oil and gas industry, he was talking from experience. Subsea engineering and construction company, Subsea 7, and North Sea oil and gas production company, Venture Production, picked up the award for 'Supply Chain Business Innovation' at last year's Oil & Gas UK Awards which recognised their commitment to removing non-value cost from projects whilst defending the supply chain's need to retain a realistic margin, in order to maintain the necessary investments in assets, equipment and people.

The Subsea 7 and Venture journey began four years ago. Venture was keen to secure a subsea contractor in an 'evergreen' style long-term contract, to allow it earlier access to the engineering design expertise that sits with contractors such as Subsea 7, and also the ability to access the scarce subsea pipelay, construction and dive support vessel services so highly sought after as commodity prices climbed and operators pushed hard to produce as much hydrocarbons as possible to take advantage of the prevailing high prices.

At the same time, Venture also wanted to move away from the traditional, cost-focused contracting approach. Instead, they wanted to build a relationship with a subsea contractor that focused on developing efficiencies by working together on projects from design concept to offshore execution. A relationship such as this would, they believed, create value through the early optimisation of field development solutions, driving efficiencies from project portfolio management and maximising returns on every available opportunity.

Subsea 7 and Venture have enjoyed significant success from the partnership since it was formed. The list of achievements totals over 35 value adding activities which Venture has assessed and valued as being equivalent to £208m worth of savings to themselves; while Subsea 7 has so far earned over £150m in revenue from the collaboration.

Subsea 7 CEO, Mel Fitzgerald, explained: "Through our partnership, we are able to engage in the planning and design process much earlier than would normally happen with contractors. As a direct result, Venture has seen savings in excess of £200m because we can help them build more flexibility around schedules, engineer the projects differently and give them access to vessels when they need. In most cases this has meant that production has come on stream much quicker."



Greg McKenna and Bob Dunsmore pick up the Oil & Gas UK Joint Award for Business Innovation

Bob Dunsmore, partnership director at Subsea 7 and Greg McKenna, head of supply chain at Venture are also keen to illustrate the benefits of partnering and working together with suppliers, especially in these current economic conditions.

Mr Dunsmore explained: "Long-term relationships allow for cultural alignment, open and honest communications and the development of trust in the other party – a bi-annual 'partnership health survey', regular team building workshops, quarterly steering group meetings and frequent project and discipline meetings all help maintain the relationship."

Mr McKenna added: "You could argue that we should change our contracting strategy back to the traditional cost-focused approach – making every supplier bid for work to achieve the lowest price, but this no longer works for Venture. We know that it makes sense to continue working with a reliable service provider like Subsea 7 to maintain security of supply but it's also important because we would not want to lose the investment we have made in building a relationship which has allowed us to save time and costs on every aspect of a project. You can't put a price on the benefit of understanding one another's business where the end result is no time or money being wasted on activities that just don't add value."

# How to derive value from supply chain management – the view from the construction industry



Antony Faughnan speaking at Oil & Gas UK's supply chain conference

*Antony Faughnan, head of commercial excellence at EC Harris and speaker at the Oil & Gas UK supply chain conference in November 2008, explains how the industry can create value in the supply chain, using EC Harris' best practice model in supply chain management in the construction industry. This involves three key principles: leadership and vision, a whole lifecycle approach and an integrated supply chain.*

Articulating what is required is key: communication is central to driving continuous improvement and that is where leadership comes in. If the organisation is inspired and challenged to deliver, and is aware of what it is

trying to achieve as a collective, it is more likely to succeed.

A whole lifecycle perspective is fundamental to delivering a best value, sustainable project. For this, we use the following formula: whole lifecycle costing = initial costs + lifecycle replacement costs + maintenance costs + operational costs + disposal costs. This is about so much more than just price and we recognise that dealing with capital and operating costs, risk and uncertainty requires a professional approach.

Developing a clear framework to improve supply chain performance is equally vital. While purchasing is important, critical factors such as HSE, quality, risk and IT have clear roles to play. No one activity is likely to provide a step-change in supply chain management – the focus therefore cannot just be on purchasing alone.

Better value is achieved when project processes consistently engage the whole supply chain. In some major projects too we have observed the benefits of raising awareness of value-based thinking in first, second and third tiers. There needs to be cost transparency, long-term and evolving relationships with suppliers, a team approach to problem solving, early main contractor involvement and incentivised agreements.

This begins with the supply chain strategy; establishing the most appropriate approach to procurement and supply chain management. Supply chain management objectives are optimised within the overall business strategy, culture and appetite for risk. The appropriate supply chain model for allocating and managing the key risks of quality, timelines and cost of delivery between partners, contractors and component suppliers can then be selected.

Strategic sourcing then follows. Creating category and supplier strategies will maximise supply chain value and allows for review and identification of potential quick wins and risk management. Contractual frameworks that support business needs and the design of the supply chain and commercial arrangements can then be put in place. Finally, through pro-active continuous supplier management, organisations can deliver a step-change in supplier performance.

From this approach, organisations can start to see that supply chain management is all about sustainable value and not just cost; with maximum positive impact where it counts, on the bottom line.

## Oil & Gas UK Decommissioning Conference

The North Sea decommissioning market will present huge business opportunities for the upstream oil and gas industry's supply chain, with the overall value until 2040 expected to be in excess of £20bn. It is envisaged that this market will sustain business continuity for key players in the sector for many years with its impact cascading down through all levels of the supply chain.

Preparing in readiness to meet the needs of this market presents a significant challenge. However the size of the prize for the many contractors and suppliers that will benefit, coupled with the need for late-life asset owners to start making concrete decommissioning plans, has stimulated the industry into giving this tail end part of the project cycle serious attention.

Oil & Gas UK is to hold a two day conference to stimulate the decommissioning market, bringing the Gulf of Mexico experience to the North Sea, transferring knowledge and expertise and identifying potential opportunities for project collaboration in the Southern North Sea. For further information and the conference programme: [www.oilandgasuk.co.uk/new/features/sns\\_decommissioning\\_conference.cfm](http://www.oilandgasuk.co.uk/new/features/sns_decommissioning_conference.cfm)